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(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF MASTERS IN BUSINESS

ADMINISTRATION

COURSE CODE: MBA 831

COURSE TITLE: FINANCIAL ECONOMICS

DATE: 15/01/2018 **TIME:** 9.00 A.M - 11.00 A.M

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours

KIBUCO observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over.

SECTION A (COMPULSORY)

QUESTION ONE

- a) If money supply in a given economy equals 500 while the velocity and price equals 8 and 2 respectively determine the number of transactions(4marks)
- (b) Explain the benefits that are enjoyed by investors because of the existence of organized security exchanges. **(8 marks)**
- (c) With examples briefly describe and explain the role of the following in the development of financial system
- Money markets
 - The bond markets
 - The foreign exchange markets
 - The share/equity market
 - The derivative market (10 marks)
- (d) List and explain five factors that should be taken into account by a businessman in making the choice between financing by short-term and long-term sources.**(5 marks)**
- (e) Discuss the intermediaries that play an important role in the development of the primary markets. What are some of the contributions made by the organizations (6mks)

SECTION B (CHOOSE ANY THREE QUESTIONS)

QUESTION TWO

- a) Give two reasons why institutions like banks prefer to hold short term rather than long term bonds
- b) Why might the increased protection provided to individual traders by derivative markets - increase the risk of the whole financial system running into difficulties? (15mks)

QUESTION THREE

- a) Discuss the concept of asymmetric information .Explain how it may cause managers to serve as investors
- b) What is the role of an investment bank that serves the underwriter in an IPO? How can it ensure, that the firm does not issue too much shares? (15mks)

QUESTION FOUR

- a) Consider the relative advantages and disadvantages of using forward contracts, future contracts and options as a means of speculation
- b) Discuss the advantages and the disadvantages to deficit and surplus units of using organized financial markets and financial intermediaries (15 mks)

QUESTION FIVE

- a) Among the financial intermediaries commercial Banking has received unprecedented attention, explain the rationale (8 mks)
- b) Discuss the various steps of book building process in the primary markets and its contribution to the activities of the primary markets (7mks)